

REYKJAVIK (AFP) - Iceland unveiled a 1.5-billion-euro plan on Monday to recapitalise three major banks that it was forced to rescue when the financial crisis devastated its economy last year.

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The government will issue bonds to the three new lenders that were born from the ashes of Iceland's biggest commercial banks, pillars of its economy, which were nationalised in October due to a worldwide credit crunch.

"The government is now in a position to capitalise all three of the new banks," Islandsbanki (formerly Glitnir), New Kaupthing and New Landsbanki, a statement from the finance ministry said.



Under the plan, the government will offer controlling stakes in Islandsbanki and New Kaupthing to the old banks' shareholders, while retaining some shares itself. A similar issue was planned for Landsbanki in ongoing discussions.

The issue will be worth a total of 270 billion kronor (1.5 billion euros, 2.12 billion dollars), it said.

"Our agreements announced today are a major step forward in the re-establishment of a strong banking system," Finance Minister Steingrimur Sigfusson said in the statement.

Iceland to relaunch rescued banks

Written by AFP / The Swedish Wire

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"Not only do today's announcements provide a firm basis for further progress, they also benefit customers of the new banks and the Icelandic economy in general."

The sale of the stakes is scheduled for August 14 and is subject to approval from regulators, the statement said.

Each bank will have a core tier-one capital ratio of around 12 percent, which is in line with international standards. The measure is used to indicate the ability of banks to absorb losses.

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Some market watchers said the recapitalisation figure was surprisingly low given the scale of Iceland's financial system.

"Very low, if you compare to what the banks looked like two years ago, with balance sheets around 150 billion dollars or so," Carl Hammer, a currency strategist at SEB in Stockholm, was quoted as saying by Dow Jones Newswires.

"They (Iceland) seem to be on the right track to recovery," added Hammer.

The decision came only days after Iceland opted to begin talks on joining the European Union.

Iceland's parliament last Thursday voted in favour of applying for EU membership, opening the way for negotiations to begin with the 27-nation bloc.

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The government has argued that joining the European Union would benefit Iceland, claiming it would bring an end to the economic turmoil that erupted after the collapse of its once-booming financial sector in October.

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